

Prepayment Presentation – February 17, 2010

Summary of Questions and Answers

- Q. How much of DSW's O&M is funded by appropriations?
A. Most of the O&M for the Parker-Davis Project (P-DP) and the Intertie Project (Intertie) is funded by prepayments.
- Q. What is the annual amount of prepayments for the P-DP?
A. Approximately \$20-30 million.
- Q. The presentation indicates that cash from appropriations and prepayments that is not used is returned to Treasury. Is this correct?
A. Yes, however we usually expend all of our limited appropriations.
- Q. Is DSW required to return cash to Treasury in an amount equal to appropriations for O&M?
A. Under Net Zero appropriations that would be true; however, O&M for the P-DP and Intertie is funded by prepayments.
- Q. What are Net Zero appropriations?
A. Net Zero appropriations provide funding for annual expenses that must be repaid within a year.
- Q. Will Treasury be concerned that they are not receiving cash for repayment?
A. Repayment is measured by revenues applied to investment in the Power Repayment Study (PRS) – not cash sent to Treasury.
- Q. Will cash ever be sent to Treasury?
A. Yes, any prepayments not used by DSW will be sent to Treasury. Additionally, capital investments resulting from the use of prepayments are recorded in the PRS. These capital costs will eventually be recovered via rates and the cash sent to Treasury.
- Q. If a capital investment funded by prepayments is amortized and included in the rate, will the customers pay twice for the same investment?
A. When customers prepay for service, Western fully credits them for that prepayment on their transmission service bills. Since the customers are given credits, they are made whole and therefore will not pay twice for the same investment.

Q. Can prepayments be carried forward to subsequent years?
A. We must either use the prepayments or have a plan to use them; otherwise, they must be sent to Treasury.

Q. Will each use of prepayments require an additional month between the prepayment and the service bill?
A. No changes to the billing process are necessary.

Q. Has \$10 million of the \$15 million shown in the presentation already been sent to RMR?
A. DSW has not sent any cash to RMR and has no plans to do so.

Q. Will prepayments be used between the P-DP and Intertie?
A. The use of prepayments is not restricted to either power system.

Q. Will the use of Intertie prepayments impact the rates or repayment of the P-DP?
A. The source of prepayments, by itself, will not impact P-DP rates or repayment. However, capital investments resulting from the use of any prepayments will eventually be recovered via P-DP rates.

Q. Is it possible that the Intertie may need prepayments from the P-DP?
A. Yes, but due to constrained appropriations; the P-DP will probably need all available prepayments to fund its construction program.

Q. Are prepayments backed out of DSW's budget request?
A. The budget request is reduced by contractual advances such as the AOF, but not prepayments.

Q. Is the wood pole replacement program included in DSW's O&M budget request?
A. The wood pole replacement program is in the construction budget, not the O&M budget.

Q. When must a decision be made to send the \$15 million of remaining prepayments to Treasury?
A. The decision must be made when the prior year audit is complete and the financial statements are published. This will probably occur in March or April.

Q. Did the \$15 million come from one month of prepayments? How will the next \$15 million in prepayments be generated?

A. No, the \$15 million is the accumulated amount of unused P-DP prepayments from fiscal year 2009. We anticipate a similar amount of unused prepayments in future years.

Q. Will using prepayments for construction withstand legal and OMB scrutiny?

A. DSW has already discussed this funding mechanism with Western's legal and financial offices.

Q. What is DSW requesting from the customers?

A. We are requesting your comments on the use of prepayments to fund construction.